



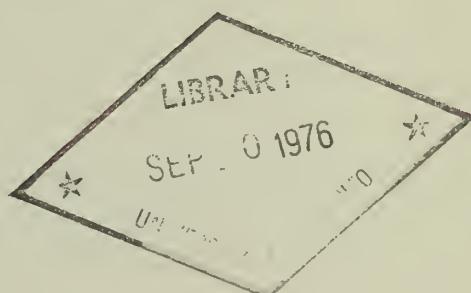


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Publications



# Ontario Energy Board



## ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1976





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Ontario  
Energy  
Board

416/965-6078

9th Floor

14 Carlton Street  
Toronto Ontario  
M5B 1K5

May 19, 1976

Honourable Dennis R. Timbrell  
Minister of Energy  
12th Floor  
56 Wellesley Street West  
Toronto, Ontario

Dear Mr. Timbrell:

I have the honour to present herewith the Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1976.

Respectfully submitted,

A. B. Jackson  
Chairman





the  
Ministry of  
Energy

416/965-4286

Queen's Park  
Toronto Ontario

June, 1976

TO THE HONOURABLE PAULINE M. MCGIBBON  
Q.C., B.A., LLD., D.U. (OTT.)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Sixteenth  
Annual Report of the Ontario Energy Board for  
the fiscal year ending March 31st, 1976.

Respectfully submitted

*Dennis R. Timbrell*  
Dennis R. Timbrell  
Minister



SIXTEENTH ANNUAL REPORT  
OF THE  
ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1976



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# ONTARIO ENERGY BOARD

## ANNUAL REPORT

Fiscal Year Ended March 31, 1976

### INTRODUCTION

During the fiscal year ended March 31, 1976, the activities of the Board continued at the high level of the previous year. The natural gas distributors applied to pass on to their customers escalating costs resulting from inflation, increases in the federally regulated price of natural gas and potential supply problems. The Minister of Energy again referred to the Board under section 37a of The Ontario Energy Board Act ("the Act") certain matters pertaining to Ontario Hydro ("Hydro").

The Board completed the Phase II (rate design) portions of the hearings of the major rate applications of The Consumers' Gas Company ("Consumers'") and Union Gas Limited ("Union"), both of which had commenced in 1974. These companies quickly filed new applications for orders fixing just and reasonable rates. New hearings commenced on Phase I (rate base, return thereon and reasonable return) which will continue into the 1976-77

fiscal year, and will be followed by hearings on Phase II (rate design).

Reasons for Decision on Phase I of the Northern and Central Gas Corporation Limited ("Northern and Central") rate case were handed down on May 9, 1975. The Phase II hearing is scheduled to commence in June, 1976.

As part of the proceedings for the rate cases of the three major gas distributors, the Board heard applications for interim rate relief because of increases in the cost of purchased gas. These increases resulted for the most part from increased rates of TransCanada PipeLines Limited ("TCPL") approved by the National Energy Board and from regulations under the Petroleum Administration Act prescribing prices agreed to by the federal government and the Province of Alberta. As to the latter, the Toronto city-gate price for natural gas was increased to \$1.25 per Mcf (thousand cubic feet), being 85% of "commodity value". The result represented an increase in gas costs of about 50% to the distributors.

In addition, the Board considered applications from smaller distributors also affected by dramatic increases in costs. A more detailed review of rate hearings appears in a later section of this report.

The Hydro reference required the Board to investigate and report on Hydro's bulk power rates proposed for 1976. The reference also included a request that the Board review the status of several studies currently being conducted by Hydro as a result of suggestions by the Board in its 1974 report. The review conducted during the fiscal year is discussed in the last section of this report.

The Ontario Energy Board Amendment Act, 1975, (2nd Session) received Royal Assent on December 18 but had not been proclaimed as of March 31, 1976. The amendment to the Statute authorizes the Board to require and implement allocation plans for gas distributors in the event of shortages of natural gas in Ontario.

#### COMPOSITION OF THE BOARD

At the close of the year under review, the Board consisted of nine members, including the Chairman and a Vice-Chairman. They were:

A. B. Jackson, Q.C.	Chairman
I. C. MacNabb, P.Eng.	Vice-Chairman
W. W. Stevenson, Ph.D.	Member
S. J. Wychowanec, Q.C.	Member
H. R. Chatterson, B.Comm.	Member
R. H. Lamb, P.Eng.	Member
G. W. Clayton, P.Eng.	Member*
D. M. Treadgold, Q.C.	Member*
J.A.W. Whiteacre, Q.C.	Member*

During the summer of 1975, the Board was strengthened by the addition of Mr. Lamb and

Mr. Chatterson as full-time members. Later in the year Dr. W. D. R. Eldon resigned and Dr. Stevenson found it necessary to devote much of his attention to the Royal Commission on Electric Power Planning, of which he is also a member.

The principal staff of the Board were:

Board Secretary	Ivy C. Fidler
Energy Returns Officer and Manager Financial Analysis	O. J. Cook
Director of Operations	J. C. Butler
Board Solicitor	L. Graholt
Special Projects Officer	D. R. Cochran
Manager, Engineering	(vacant position following resignation in October 1975 of K. J. Slater)
Board Engineer	H. Strozyk
Manager, Rate Design	Dr. M. Jackson
Financial Analyst	A. Meddows-Taylor
Financial Analyst	A. Parekh

#### WORK OF THE BOARD

A total of 105 proceedings were commenced before the Board during the 1975-76 fiscal year: 97 by application, 4 by ministerial reference and 4 by letter request. Of the 97, 52 were expropriation applications of which 16 were subsequently withdrawn. A breakdown of proceedings completed during the fiscal year is as follows:

Under The Ontario Energy Board Act

	<u>Number of Proceedings</u>
Rates and other charges for gas . . . . .	13
Unitization . . . . .	1
Designation and authorization . . . . .	2
Approval of storage contracts . . . . .	5
Leave to construct transmission pipelines	6
Land expropriation for pipelines . . . . .	36
Miscellaneous orders . . . . .	12
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References by Ministers . . . . .	3
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### Under The Municipal Franchises Act

Approval of gas franchises . . . . .	5
TOTAL	85

Gas rates and Hydro matters again occupied most of the Board's time during the year. Other matters of importance included the approval of the reorganization of Northern and Central and the investment reference, both discussed later in this report.

In accordance with the Board's customary practice, hearings are held at locations convenient to interested parties. Twenty-four were held outside Toronto: at London, Chatham, Sarnia, Cayuga, Fort Frances and Aylmer.

## NATURAL GAS

### Rates

#### 1. THE CONSUMERS' GAS COMPANY

##### The Phase II Proceedings

Phase II (rate design) proceedings in respect of a Consumers' main rate application were concluded by Reasons for Decision dated September 4, 1975. Interim rate relief had been granted to permit Consumers' to pass on 1.53¢ per Mcf on a non-refundable basis to all customers commencing April 2, 1975, to offset increases in its cost of gas purchased from TCPL. This was the fifth interim increase granted to Consumers' during the course of the main rate application.]

Phase II included a request for increased rates to prevent an alleged revenue deficiency developing in Consumers' 1975 fiscal year in relation to the fair rate of return found by the Board in its Phase I

decision. In rejecting this proposal, the Board observed that the earlier finding that 9.35% was a reasonable rate of return did not imply that anything less called for a prompt rate increase and anything more for a prompt rate reduction. ]

[ In the Phase I decision, the Board had stated that it would expect Consumers' to support its rate design proposals with cost allocation studies and other evidence. It was pointed out in the Phase II decision that although the Board did not rely wholly on allocated costs as a basis for determining rate levels for customer classes, they were nevertheless of major importance. ] There was lack of agreement among the parties as to the methods to be used in cost allocation studies and the weight to be given to the results. These issues related particularly to the question of whether a greater share of recent cost increases should be borne by residential and small volume commercial and industrial customers. Other major issues in the case included:

- (i) area rate differentials;
- (ii) range rates;
- (iii) reclassification of customers and reducing the number of blocks and the tilt in the open block schedules;
- (iv) multiple location billing; and

(v) an automatic price adjustment clause having universal application.

Although the cost allocation studies showed over-contribution by large volume industrial customers, the Board said they were not being over-charged. The Board noted that the escalation clauses in their contracts did not provide for the passing on of cost increases other than increases in the cost of purchased gas and said that relief from some of the cost increases was a sufficient recognition of the results of the cost allocation studies.

The Board dealt with Consumers' proposed Rates Schedules Nos. 1, 3, 4, 6, 92, 93 and 94 as follows:

(a) Proposed Rate 1 (residential) was reduced by 0.045¢ per Ccf. In addition, customers in the old Provincial Gas area were to receive a reduction of 1¢ per Ccf until September 30, 1976;

(b) Proposed Rates 3 and 4 (flat rate residential water heating) were rounded down from \$3.03 to \$3.00 and from \$5.04 to \$5.00, respectively;

(c) Proposed Rate 6 (commercial and industrial) was also reduced by 0.045¢ per Ccf and customers in the Provincial Gas area were to receive a reduction of 1¢ per Ccf until September 30, 1976;

(d) Rate 92 (special building heating and public authority) was to be discontinued as soon as the Applicant can terminate existing contracts;

(e) Rate 93 (special commercial and industrial) was continued temporarily and the rate policy under new contracts was to remain the same as in the past. The Board indicated that range rates would be eliminated as soon as practical; and

(f) Rate 94 (large volume processing) was revised to state the contractual rates actually charged to Cyanamid of Canada Limited.

The Board ruled that Consumers' should discontinue the billing concept of multiple location contracts upon expiry of present contracts. Consumers' sought and obtained approval to reduce the late payment penalty from 10% to 5% applicable to all customers; and to charge \$5.00 for reading meters on change of occupancy. The Board also ruled, in respect of a question raised by intervenors, that it did not have jurisdiction to fix the Applicant's charges for the rental of equipment.

#### The New Phase I Proceedings

[ In September, Consumers' brought a new application under section 19 of the Act. In its submission, the Applicant requested that deferred income taxes be recognized as a cost of service and that its investment in ]

Ontario gas exploration, development and production be included in rate base. The Applicant also sought interim rate relief to recover increases in the cost of capital, cost of gas purchased from TCPL, and other costs.

By Reasons for Decision dated November 24, 1975, the Board granted interim relief of 42.84¢ per Mcf to pass on increases in the cost of purchased gas. The Board also allowed, subject to possible later adjustment, an increase of 1.09¢ per Mcf to cover the cost of Consumers' Ontario exploration, development and production program. In other respects the interim application was denied.

In January, 1976, Consumers' again sought interim increases to recover sufficient revenue to earn a rate of return of 10.35% and to provide for the proposed change from flow-through to deferred income tax accounting. The application also requested correction of a minor error made in calculating the exploration, development and production costs used in calculating the increase granted earlier. In its decision of February 23, 1976, the Board allowed, subject to possible later adjustment, increases to enable the Applicant to earn a rate of return of 9.5%. The Board also accepted the correction to the exploration, development and production costs, but again denied an interim increase based on deferred income taxes.

On February 16, 1976, the evidence in the Phase I main hearing was completed and, by April 9, 1976, the Board had received written argument from counsel. The Board's deliberations on evidence and argument before it continue.

During the main hearing of Phase I, Cyanamid of Canada Limited, an intervenor, requested the Board to state a case in writing for the opinion of the Divisional Court in respect of the meaning and application of section 55 of The Public Utilities Act. In Reasons for Decision dated March 18, the Board denied the request and stated that the parties should await the Phase I decision.

## 2. UNION GAS LIMITED

### The Phase II Proceedings

During the course of the Phase II (rate design) proceedings, by two applications dated April 17, 1975, Union requested interim rate increases of 2.99¢ per Mcf to recover purchased gas cost increases and 1.79¢ per Mcf to recover the increases in the carrying cost of gas in storage. The Board allowed, on a refundable basis, 2.47¢ per Mcf and 1.79¢ per Mcf, respectively.

The hearing of Phase II evidence was concluded on May 15, 1975. On October 31, 1975, the Board handed

down its Reasons for Decision. All interim rates then in effect were confirmed. The major issues and the Board's disposition of them were as follows:

(a) Uniform Rates

The Board granted Union's request to implement uniform rates throughout its system. The City of Windsor opposed implementation in one step and proposed a phasing-in of rate uniformity between Zones 1 and 2 over a five-year period. The Board did not consider that proposal reasonable and confirmed its earlier interim decision that rates should be uniform throughout the system.

(b) Range Rates

Proposed Rates 5, 6, 7, 10 and 11 provide for the negotiation of rates and charges between Union and the customer within established upper and lower limits.

In the test year ended March 31, 1973, there were about 135 customers served under range rate schedules, of whom 15 to 20 were large volume industrial customers using in excess of 5,000 Mcf per day. Intervenors took the position that because of changing conditions, the range rate policy was no longer appropriate. The Board decided that Union had not made a case for the

continuation of range rates in Rates 5, 6, 10 and 11 and directed it to develop specific rates to replace the range rates proposed as the contracts expire. With regard to Rate 7, the Board concluded that range rates should continue with the following modifications:

- (i) the schedule should provide that the negotiated rate be approved by the Board prior to any billing; and
- (ii) the schedule should provide that when the rate is approved, the contract should be filed with the Board and be accessible to the public.

(c) Proration of Interim Rate Increases

Union took the position that proration of consumption should not be ordered with respect to the January 1975 rate increases. The Board, however, disagreed and ordered Union to prorate, effective December 18, 1974, any consumption that would necessitate an adjustment of \$3.00 or more.

(d) Cost Allocation Studies

Three cost allocation studies were filed in this proceeding: each was developed on a fully-distributed cost basis using data for the test year consistent

with Phase I. Union's study indicated a significant undercontribution by the residential class; the study by the Industrial Gas Users Association showed an even larger undercontribution by the residential class and an overcontribution by large volume contract customers and other industrial and commercial customers; the study by R. A. Ransom, the Board's consultant, indicated an overcontribution by the general service class and undercontributions by both residential and large volume contract customers. Divergence in the results of three different cost allocation studies is not unusual. The Board, in its decision, stated:

" . . . the cost allocation studies filed in this proceeding indicate a direction in which rates should move but are not useful in quantifying, in dollar terms, the amount of the increase or the decrease in rates."

In summary, the Board considered that rate design should move towards cost-based rates and that the best method of accomplishing this is to adjust rates so that trends indicated by annual cost allocation studies can be interpreted and used to a much greater degree in rate design.]

On March 3, 1976, the Board met with all interested parties to settle the terms of the rate schedules and the order which then would finally conclude the proceeding. At March 31, 1976, the end of the year covered by this report, the Board's order had not yet been issued.

On March 3, the Board also heard a request by the City of Kitchener that the Board re-open and review its Phase II decision, essentially on the ground that additional information had come to light since the Board heard the Phase II application and that, had the Board been aware of such information, its decision in regard to the wholesale rate applying to Kitchener (Rate 9) might have been different. At March 31, the Board's decision on the request was pending.

#### The New Phase I Proceeding

On November 4, 1975, four days after the Board's Phase II decision, Union brought a new Phase I application. It contained some unusual features. One was a submission that customers of Union receiving gas at reduced rates under right-of-way agreements dating as far back as 1913 be required to pay for their gas at the regular rate. Union also requested that customers receiving gas without charge because of old oil and gas leases or franchise agreements be required to pay for their gas at the regular rate. These portions of the application attracted a substantial number of interventions by those customers affected. The Board recognized that a jurisdictional issue is involved and proposed to hear argument after the completion of Phase I and before the commencement of Phase II.

The hearing commenced on December 8, 1975, at which time the Board dealt with an interim application to authorize Union to recover increases in the cost of gas purchased from TCPL, Panhandle Eastern Pipeline Company and Ontario producers, and higher carrying costs on its investment in gas in storage. Union estimated that the 42¢ per Mcf rate increase from TCPL would amount to \$101,300,000 on an annual basis or \$277,000 per day, the largest cost increase in Union's history. In percentage terms the cost increases from Panhandle and Ontario producers were substantial although the dollar amounts were comparatively small, since most of Union's gas supply is purchased from TCPL.

The Board approved on a refundable basis the following increases to Union's customers:

(a) effective January 1, 1976, with respect to all gas sold to customers who purchase gas under contracts containing escalation clauses, the full amount of the increases allowed in the purchased cost of gas which Union may pass on under the escalation clauses; and

(b) effective with consumption on and after January 23, 1976, with respect to all other customers, an increase of 41.11¢ due to increases in the cost of purchased gas and 2.35¢ per Mcf because of the increased carrying cost of gas in storage, for a total increase of 43.46¢ per Mcf.

Union's evidence on the Phase I main hearing was prepared on the basis of a prospective test year ending March 31, 1976. Accordingly, the financial data initially filed contained 6 months actual results and 6 months estimated figures. It was later updated to include 9 months actual and 3 months estimated. Using the updated figures, Union calculated its total cost of service, including a fair rate of return of 10.66% on its proposed rate base of \$479,319,000, to be \$423,841,000. On an annualized basis Union's current rates and other utility income generate only \$397,492,000. Consequently, the requested revenue increase was \$26,349,000.

The Board arranged for completion of the hearing of evidence on Phase I by April 5 and completion of argument by May 28, 1976.

### 3. Northern and Central Gas Corporation Limited

On May 9, 1975, the Board handed down its Phase I reasons for decision in respect of Northern and Central's rate base, return thereon and reasonable return. The Board determined that the rate base for the test year ended December 31, 1973, was \$130,624,885. The Board also determined that the existing rates produced a return thereon of 9.66% whereas a return of 9.51% should be reasonable.

Because the Ontario utility is an operating division of the corporation it has no specific capitalization of its own. The Board therefore determined a hypothetical capital structure that would be appropriate if the operating division were standing on its own. The capital structure determined by the Board, together with the rate of return found to be reasonable on each component of capital, and a determination of the composite rate of return, was as follows:

<u>Capital Component</u>	<u>Capital Structure</u>	<u>Rate of Return</u>	<u>Allocation</u>
Long-term Debt	52.06%	7.70%	4.01%
Preference Share Capital	8.78%	5.75%	0.50%
Accumulated Tax Deferral	4.40%	3.00%	0.13%
Common Share Equity	34.76%	14.00%	4.87%
	<hr/>	<hr/>	<hr/>
	<u>100.00%</u>		<u>9.51%</u>
	<hr/>		<hr/>

The Board allowed Northern and Central a total revenue requirement of \$82,623,678, made up of costs and expenses of \$70,201,251 and \$12,422,427, as a return of 9.51% on rate base. Since total revenues were deemed to be \$82,817,228, the Board calculated that Northern and Central had excess earnings of \$193,550 in the test year.

The Board considered this excess to be relatively small and did not require Northern and Central to make adjustments or refunds.

On September 30, 1975, Northern and Central applied for interim increases to enable it to pass through increases effective November 1 in its cost of gas purchased from TCPL. In its fifth interim decision since the commencement of the main application, the Board allowed the Company surcharges of:

Western Region	39.475¢ per Mcf
Northern Region	42.046¢ per Mcf
Eastern Region	45.528¢ per Mcf

on all gas sold on or after November 8, 1975, and before February 1, 1976. This interim order was later extended to April 5, 1976, when the Phase II hearing was scheduled to commence.

#### 4. OTHERS

In November, 1975, the Board granted interim rate increases to Inter-City Gas Limited ("Inter-City") to pass on increased gas costs. These, together with interim increases that had been allowed in January, 1975, and that were also due to increased gas costs, amounted to about 61¢ per Mcf.

The decision in the main application was handed down on March 22, 1976. The Board found the reasonable rate of return to be 11.69% on a hypothetical 60-40 debt-equity ratio. Revenue deficiency, excluding that produced by further gas cost increases, was \$13,668. In the result the interim increases were confirmed, rates to rate schedule customers were increased by 2.62¢ per Mcf and the contractual commodity rate applying to Inter-City's special contract customer was overridden and increased by 0.368¢ per Mcf.

The Medina Natural Gas Company, Limited ("Medina") was granted interim rate increases in February, 1976, due to increased gas costs. Together with interim increases allowed in January, 1975, because Medina was selling gas at a loss, the interim increases averaged \$1.83 per Mcf based on a consumption of 10 Mcf per month. The Central Development Company, Limited ("Central"), whose gas distribution system is operated by Medina, was also granted interim increases in February of 1976 to pass on increased gas costs. Together with increases that had been granted without a hearing just prior to the commencement of the fiscal year, these totalled 82¢ per Mcf.

Other gas rate matters involving small utilities were also dealt with without a hearing. Wellandport Gas Company Limited received an increase in February of 1976

Also, prior to the commencement of the year under review, Farmers' had received an increase and Tecumseh Gas Storage Limited a decrease. Applications by Moffat Lake Explorations Inc. and Tuckersmith Gas Inc. remain to be disposed of.

#### Accounting Orders

As a result of the 1974 Phase I Union decision and a request by Union, the Board issued four accounting orders in April, 1975. These approved revised depreciation rates, amortization of hearing costs and deferred gas costs and amortization of part of the premium paid to acquire United Gas Limited. Then, in May of 1975, the Board issued to Union an accounting order determining the appropriate accounting treatment of the 10% federal income tax surcharge.

In September, 1975, Consumers' requested accounting approval to amortize extraordinary plant losses not previously covered by accounting orders issued by the Board. The Board granted such approval without prejudice to its ratemaking treatment of profits on the sale of land associated with the extraordinary plant losses.

Late in 1975, Northern and Central requested an order approving the accounting treatment of its depreciation rates and deferred gas costs in conformity with the May Phase I rates decision. The order was issued in February, 1976.

Unitization

By decision dated February 23, 1976, the Board unitized the various interests within the Dawn 4-28-3 Pool, located in Dawn Township, Lambton County, for the purpose of drilling and operating gas wells and the apportioning of costs and benefits. Union was designated manager of the unit operation.

The unitized area consists of 262.5 acres, 99.63 of which form the participating area. The initial recoverable gas reserves have been estimated to be 0.2 Bcf.

Gas Storage

Upon application by Union, the Board, on July 9, 1975, recommended to the Lieutenant Governor in Council that some 250 acres be added as protection for stored gas to the previously designated storage area known as the Bickford Pool, Sombra Township, Lambton County. Such additional lands were designated by Ontario Regulation 632/75 filed July 31.

Union also applied to designate as a gas storage area some 457 acres, known as the Rosedale Pool, in Enniskillen Township, Lambton County, and the Board so recommended. The lands were designated by Ontario Regulation 708/75 filed September 2.

After each designation the Board issued an order authorizing Union to inject gas into, store gas in and remove gas from the designated area. Union now operates nine designated gas storage areas with a total working capacity of about 75 Bcf at original discovery pressures.

It was indicated in the last previous annual report that the Board had approved the parties, term and storage in respect of an agreement whereby Union would store gas for Lowell Gas Company ("Lowell") of Lowell, Massachusetts. The capacity dedicated to Lowell was made subject to rights of first and second refusal by Ontario distributors and TCPL. In April, 1975, the National Energy Board issued licences permitting Canadian Lowell Gas Limited to import and export the gas in question. One of the licences was conditioned upon the licensee, when advised by the National Energy Board that the transportation or storage facilities are required for use by any person in Canada, restricting the importation of gas into Canada during such times and in such quantities as are designated by that Board. In November, however, the Federal Power Commission denied Lowell authorization to export and import the gas. The project will not proceed unless this decision is reversed.

During the year under review, the Ontario Energy Board approved the parties, term and storage in respect of agreements whereby Union would store gas for the Kingston Public

Utilities Commission ("Kingston PUC"), Gaz Metropolitain, inc. ("GMi") and Northern and Central.

The Kingston PUC agreement is for a maximum term of 20 years and provides for a maximum storage balance of 0.1 Bcf during the definite term of six years.

The GMi agreement is also for a maximum term of 20 years. It provides for a definite term of five years and a maximum storage balance of 4.5 Bcf. It also provides that:

- (a) Ontario distributors and TCPL have the right of first and second refusal of the contracted capacity after the expiry of the definite term; and
- (b) Union could temporarily suspend GMi's storage rights after March 31, 1978, in the event that Ontario gas consumers face a short-term emergency.

The International Nickel Company of Canada, Limited ("Inco") intervened in the April 1975 application in respect of an agreement whereby Union would store gas for Northern and Central to augment Northern and Central's winter service capabilities. Inco alleged that the Board should condition its approval so that part of the storage would be used for Inco's benefit. During the course of the hearing, the Board stated that it would not consider the approval of a storage agreement that would in effect allocate storage capacity to

a customer of a distributor. Counsel for Inco thereupon served an application for judicial review and the Board adjourned the hearing. On May 8, 1975, the Supreme Court of Ontario ruled that the Board had not refused to hear and determine the issues and dismissed the application for judicial review. The hearing before the Board then proceeded to its conclusion. On July 11, 1975, the Board dismissed the application, holding that there is a possibility that approval of the parties to the agreement would have the effect of approving Inco as a party, directly or indirectly.

Union then filed an application to approve a new agreement with Northern and Central. The application was granted. The agreement, as amended, is for a maximum term of 15 years. It provides for a definite term of five years and a maximum storage balance of 3.5 Bcf.

### Pipelines

During the year under review the Board granted leave orders to Union:

(a) to commence construction of the second phase of the 42-inch transmission line to loop the Dawn-Trafalgar lines from the Dawn Compressor Station to the Strathroy Gate Station. The second phase extends 12 miles from the Enniskillen Valve Site to the Brooke Valve Site in Lot 24, Concession 9, Brooke Township, Lambton County;

(b) to replace a major portion of the 12-inch Dominion transmission line from Ridgetown to Payne's Mills. The replacement consists of 13.8 miles of 8-inch line and 26.8 miles of 6-inch. It is generally located along the line it replaces;

(c) to construct a transmission line and facilities to connect the Terminus storage pool to Union's 24-inch Bickford Line at Lot 23, Concession XI, Sombra Township, Lambton County. The line consists of 2,800 feet of 24-inch pipe, 6,400 feet of 20-inch line, and metering facilities; and

(d) to construct a metering station in Lot 26, Concession 8, Moore Township, Lambton County.

The Board also heard two other applications by Union to construct five additional 42-inch looping sections of its Dawn-Trafalgar transmission lines; 15.5 miles were proposed to be constructed in 1976, 8.5 miles in 1977 and 22.5 miles in 1978. As at March 31, 1976, the Board had not rendered its decisions.

In May of 1975, the Ontario Municipal Board rendered its decision approving Dawn Township's restricted area By-law 40 of 1973 as amended by By-law 52 of 1974. The By-law sets out a corridor concept for the construction of transmission lines. It provides that they are to be laid only in corridors 200 feet wide

running along half lot lines in a north-south direction and along concession lines in an east-west direction, across but not along a township, county or provincial road or highway. Union and Tecumseh Gas Storage Limited appealed the decision to the Divisional Court. Leave to appeal was granted on November 25, 1975, but the appeal had not been heard as of March 31, 1976.

#### Expropriations

Thirty-six orders authorizing Union to expropriate land for transmission line easements were issued during the year. Eleven of these were to provide extra width for a limited time to facilitate construction of the pipeline. The Board holds these expropriation hearings in the local areas to encourage presentation of evidence by the landowner.

Twenty-five of the 36 were in respect of the second phase of the Dawn-Strathroy 42-inch loop line, nine in respect of the North Chatham line which the Board granted leave to construct prior to the fiscal year and the remaining two in respect of the line to connect the Terminus Pool to the Bickford Line.

#### Exemptions

Three exemption orders were issued by the Board for transmission pipeline construction under section 38(3) of the Act.

One was granted to Polysar Limited for the construction of several lines to carry various hydrocarbons from the facilities of Petrosar Limited in Lot 24, Concession X, Moore Township, Lambton County, including substitute natural gas to the metering station in Moore Township that Union was granted leave to construct.

An exemption was also granted to Union for the construction of some 900 feet of 2-inch natural gas pipeline to replace part of an existing 12-inch Dominion line in Lot 18, Concession 3 W.C.R., Harwich Township, Kent County. An exemption had also been granted in 1974 to replace part of the line.

The other exemption was granted to Petrosar Limited for the construction of two miles of 30-inch line from the Interprovincial Pipe Line Company crude oil line in Lot 24, Concession XII, Moore Township, to the facilities of Petrosar Limited.

#### Franchises and Certificates

In April of 1975 the Board approved Consumers' franchise for the Town of Fort Erie. The town had been originally served by a predecessor, Provincial Gas Company Limited.

Consumers' franchises for The Town of Pickering, The Town of Ajax and the City of Brampton were approved

in October, 1975. Consumers' had previously been franchised in these areas. However, because of the municipal reorganization resulting from The Regional Municipality of Durham Act, 1973, and The Regional Municipality of Peel Act, 1973, the individual areas of the new franchises do not coincide with those of the old.

The renewal of Union's franchise for the Town of Wallaceburg was approved by the Board on March 30, 1976.

As part of each of the approval orders, the Board declared and directed that the assent of the municipal electors to the by-law granting the franchise was not necessary.

#### Discontinuance of Service

In July, 1975, Union applied for leave to discontinue distributing gas to 116 customers on 22 sections of line in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth. The application followed upon the discontinuance proceeding reported in the Board's 1973 annual report.

The lines in question are former gathering lines of Dominion Natural Gas Company, Limited. Union purchased the Dominion system, including gas wells, in 1958. All the wells had been abandoned or sold by 1972.

Hearings were held in Cayuga in November, 1975, and February, 1976. As at March 31, 1976, the Board had not reached a decision.

Acquisitions

1. Newco Ltd.

In May the Board reported to the Lieutenant Governor in Council on the application of Newco Ltd. ("Newco") to acquire the outstanding voting shares of Northern and Central. The application was necessary as part of a corporate reorganization whereby the voting shareholders of Northern and Central would transfer their shares to a new company, Newco, in exchange for comparable shares of Newco, thus making Newco the parent company of Northern and Central, and Northern and Central would transfer its holdings in securities of Canadian Industrial Gas & Oil Limited ("Cigol") and Coleman Collieries Limited, resource companies, to Newco in exchange for an unsecured promissory note. These steps would be followed by a statutory amalgamation of Newco and Cigol to form the final result, Norcen Energy Resources Limited, an Alberta company that would hold the properties and interests of Cigol and be the parent company of Northern and Central.

The Board recommended to the Lieutenant Governor in Council that leave be granted, subject to conditions.

By Order-in-Council 2116/75, dated July 30, 1975, leave was granted, subject to conditions recommended by the Board and to other conditions.

2. The Central Development Company, Limited

Just prior to the commencement of the fiscal year, the Board reported to the Lieutenant Governor in Council on the application of Central to sell its gas distribution system to Medina for \$14,500. As at March 31, 1976, there had been no decision on the matter.

#### INVESTMENT REFERENCE

Order-in-Council O.C. 3100/74 was mentioned in the Board's 1974 annual report. It required the Board to examine and, after a public hearing, report on various aspects of the question of customer rate support for investments or expenditures by Ontario gas distributors to secure additional future gas supplies for Ontario.

In preparation for the hearing, Board personnel visited the offices of the Federal Power Commission, the State of New York Public Service Commission and the California Public Utilities Commission for discussions with officials of those commissions and communicated with officials of those commissions and communicated with other regulatory bodies. Staff of the Board set forth

their findings in the form of a report which was filed in evidence at the hearing. The firm of Coopers & Lybrand, chartered accountants, assisted the Board by analysing the initial submissions and filing a report on the sharing of risks and benefits between customers and shareholders.

The hearing was completed in October, 1975. Those actively participating were:

The Alberta Gas Trunk Line Limited and  
The Alberta Gas Trunk Line (Canada) Limited

The Association of Municipalities of Ontario

Canadian Arctic Gas Pipeline Limited

Committee for an Independent Canada

The Consumers' Gas Company

Foothills Pipe Lines Ltd.

Industrial Gas Users Association

Northern and Central Gas Corporation Limited

Panarctic Oils Ltd.

TransCanada PipeLines Limited

Union Gas Limited

During the hearing, the Board was privileged to have both the President and the Chief Gas Engineer of the California Public Utilities Commission give evidence as a courtesy to the Board. Their evidence related to the California policy and practice regarding customer support for gas supply investments.

The Board reported to the Lieutenant Governor in Council in February, 1976. The Board did not consider that it was being asked to report on the merits of the policy of customer rate support for investments but rather on how the policy ought to be administered assuming it were adopted. It became apparent at the hearing that the immediate concern of the distributors was customer support for investments in Canadian Arctic Gas Study Limited and Canadian Arctic Gas Pipeline Limited.

In its report the Board gave opinions and made recommendations in regard to, among other issues, limitations on amounts of expenditures, sharing of risks and benefits, regulatory treatment and financing, procedures and legislative change. It is not known yet whether the policy will be implemented in Ontario.

#### STEAM RATES

By virtue of The Town of Ajax Act, 1960, the Ontario Energy Board, being the successor to the Ontario Fuel Board, has jurisdiction to approve a tariff of maximum steam rates to be charged by Industrial Steam Limited ("Industrial Steam"), of Ajax.

Industrial Steam first came before the Board before the commencement of the year under review and, by order issued April 14, 1975, the Board approved the Company's

then existing rates, together with a fuel adjustment clause, as its interim tariff of maximum rates effective for a period of not more than one year.

In January of 1976, Industrial Steam applied for approval of a new maximum tariff providing for increased rates and a change to its fuel adjustment clause. The hearing was in progress at the end of the year under review.

#### ONTARIO HYDRO

C By reference dated May 2, 1975, under section 37a of the Act, the Minister of Energy required the Board to investigate, examine and report on the proposal of Hydro to increase by about 30% the bulk power or wholesale rates it proposed to charge in 1976 the 353 municipal electric utilities and its 99 direct industrial customers having an average monthly power demand of 5,000 kilowatts or more. The reference requested the Board to include, to the extent necessary, a review of:

- (a) measures instituted or proposed by Ontario Hydro to promote efficiency and productivity;
- (b) the appropriateness of increasing the level of equity financing for systems expansion as opposed to borrowing more in the capital markets;

- (c) the size and use of financial reserves, the recovery of operating deficits from particular customer classes, and the nature of and need for 13th Bills;
- (d) demand and energy components of the bulk power rates;
- (e) discounts and service conditions applicable to interruptible and furnace loads;
- (f) interchange policy and pricing;
- (g) interest capitalization policy;

and to review with Hydro the progress of Hydro's studies relating to:

- (1) inter-utility productivity comparisons;
- (2) depreciation and asset lives;
- (3) alternative systems of cost allocation and pricing, including charges for non-common and specific facilities;
- (4) allocation of overhead costs;
- (5) price elasticity of demand and its relation to load growth; and
- (6) value to customers of different levels of reliability and standards of service, and their effects on system costs.

The hearing commenced on June 9, 1975, and concluded on September 15, after 55 sitting days. After release of the July 7, 1975, Ontario mini-budget which

called on Hydro to exercise constraint, Hydro reduced its proposed rate increases to about 25%. Intervenors included industrial power users, municipal utilities, municipalities, and individuals.

On September 2, 1975, the Board made an interim report to the Minister containing a summary of Hydro's submission as tested by cross-examination. The Board expressed the opinion that Hydro had made a *prima facie* case to support a rate increase.

The Board submitted Part I of its final report on October 10, 1975, and Part II on February 4, 1976. In Part I the Board recommended increases of about 27% for Hydro's 1976 rates. The Board stated that the 2% in addition to Hydro's amended proposal would enable Hydro to avoid a \$16 million revenue deficiency and to preserve its financial integrity.

The following observations and recommendations further highlight the final report:

(a) The amount of the charge to be included in the export price of electricity to recover social costs should be the subject of continued study and investigation.

(b) The Board cautioned against Hydro relying on revenue from the sale of surplus electric energy to neighbouring United States utilities because such sales

are subject to wide variation due to economic factors over which Hydro has no control. Rather, Hydro's objective should be to secure sufficient revenue from its Ontario customers to cover all costs incurred in serving them. Profits from export sales should be viewed as extraordinary income to be applied against any revenue deficiency that may occur from year to year and to assist in financing the expansion of the system.

(c) Regarding Hydro's 1975 work program budgets, it was recommended that Hydro should be held publicly accountable in some manner for the amount by which the estimated cost to complete a major facility exceeds the budget established at the time the project was approved by the government. To avoid the inconsistency of examining a current year's budget in relation to a rate proposed for the year following, the Board suggested that a more practical approach would be for greater emphasis to be placed on the forecast of costs that are associated with the rate year in question.

(d) If the concept of the power district is to be retained, the Board recommended that Hydro seriously consider sub-dividing the power district on a geographical basis in such a way that each sub-division is more comparable to a municipal utility so that the contribution to total system diversity of each entity is

properly recognized and would result in a more equitable sharing of diversity benefits.

(e) Hydro's prime responsibility is to provide electrical service to its customers in accordance with its commercial mandate. If, in the view of government, Hydro is able to serve as an instrument in the implementation of policies intended to better the economic and social well-being of Ontario, then Hydro should be so instructed by the government.

(f) The Board recommended that discussions on the nuclear agreement with Atomic Energy of Canada Limited should be continued with a view to reducing the amount of payback to a level more in keeping with the intent of the original agreement, which the Board interpreted as implying that the payback should be limited to the recovery of the original capital investment plus a reasonable return thereon.

(g) The Board expressed concern with the deteriorating trend in Hydro's debt-equity ratio and concluded that Hydro must generate more revenues for capital expenditures from rates. The Board urged that neither the debt retirement charge nor the system expansion charge be reduced below the level proposed for 1976, the principal purpose of each being to provide a source of funds to finance the expansion of the business.

(h) The Board recommended a series of public hearings and inquiries to examine, among other matters: the

efficiency and productivity of the organization; the validity of medium-term system expansion plans in terms of realistically required reserves and economic investment choices; the financial policy in general and pricing policy in particular; the economic and social role Hydro does and should play in the Province; and the environmental impact and social costs of Hydro. ]

On an experimental basis and for the 1976 nearing only, the Board recommended that the rate review reference specifically exclude long term forecasts beyond three years.

The Board's recommendations are not binding on Hydro. On October 22, 1975, Hydro advised the Minister that it intended to implement rate increases of about 25% in accordance with its amended proposal. On October 30, the Hydro proposal and the Board report were referred to a Select Committee of the Legislature for review in light of the then recently announced federal anti-inflation program and the Ontario commitment to it. In its interim report of December 12, 1975, the Select Committee recommended a 22% increase to be effective on January 1, 1976. This recommendation was accepted and implemented by Hydro. The final report of the Select Committee had not been submitted as at the end of the year under review in this report.





